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Date: 8 December 2000

To: Mr. Benon Sevan, Executive Director
Office of the Iraq Programme

From: Esther Stern, Director 
Audit and Management Consulting Division, OIOS

Subject: **OIOS Audit Number AF00/48/4: OIP/UNOHCI operations in Northern Iraq
– Issues resulting from the audit of UNCHS Settlement Rehabilitation
Programme in Northern Iraq**

1. In September 2000, OIOS conducted an audit of the United Nations Centre for Human Settlements (Habitat), Settlement Rehabilitation Programme in Northern Iraq (Assignment no. AF00/101/1). As a result of the audit, several issues emerged relating to the coordination and monitoring function of OIP and UNOHCI in Northern Iraq. The recommendations contained in this memorandum are based on the findings resulting from the Habitat audit, which were discussed with UNOHCI officials in Northern Iraq and subsequently with OIP's Programme Management Division in New York.

2. I would appreciate receiving your comments concerning these recommendations by 31 January 2001. Please refer to the recommendation number concerned to facilitate monitoring implementation status. A copy of the draft Habitat audit report is enclosed for your information.

Payments to local authorities made by UN Implementing Agencies

3. Habitat was making payments to "site supervisors" deployed by the local authority (LA) to project sites. Habitat management informed us that the "supervision mechanism" provided under this arrangement added no significant value to the project since Habitat has its own site supervisors who are responsible for ensuring the quality and timely completion of construction. While the local authorities may want to inspect the works, in OIOS' view, there was no justification for the Project bearing any part of the cost. After discussions with UNOHCI officials in Northern Iraq we were informed that similar payments were being made by other UN agencies.

4. While we could not obtain figures for the other UN implementing agencies, we noted that current payments for Habitat were approximately \$500,000 per annum and, with the increase in building activities, the payments could reach \$1 million per annum in the coming phases. Moreover, recent correspondence from the local authorities indicated that they are dissatisfied with the current levels of payment and are pressing Habitat for substantial increases.

5. The bases for these payments were discussed at a meeting on 1 February 1999 between the "Joint Committee" of the political parties of North Iraq, Habitat and UNOHCI officials. The draft

minutes reflect a decision by the local authorities to establish "an appropriate system for the supervision of SCR 986 public works" the costs of which will be borne by Habitat "by compensating its (local authorities,) supervisors for the additional tasks performed and costs incurred". While the local authorities refused to sign the minutes of the meeting, as they were dissatisfied with the outcome of the discussions, Habitat decided to proceed with implementing the decisions.

6. Security Council Resolution (SCR) 661 (paragraph 4) decided "...that all States shall not make available to the Government of Iraq, or to any commercial, industrial or public utility undertaking in Iraq or Kuwait, any funds or any other financial or economic resources and shall prevent their nationals and any persons within their territories from removing from their territories or otherwise making available to that Government or to any such undertaking any such funds or resources and from remitting any other funds to persons or bodies within Iraq or Kuwait, except payments exclusively for strictly medical or humanitarian..." Making payments to Iraqi civil servants who are not contracted by the UN humanitarian programme would therefore seem to be in contravention of SCR 661. Moreover, the legal and political ramifications of these payments have not been sufficiently addressed.

7. In the Habitat draft audit report, we recommended (Recommendation 10) that Habitat in consultation with UNOHCI, should address the legal and political ramifications of paying allowances to Local Authority personnel who are not employed by and do not provide any required services to Habitat, and determine an appropriate way to eliminate these payments. Since this issue is an issue that needs to be resolved and may affect the credibility of OIP/UNOHCI, it is necessary that action should be taken by UNOHCI to correct the situation. It may also be appropriate to obtain the approval of the Security Council Committee for these payments.

Recommendation 1

UNOHCI should review the legality of paying allowances and other benefits to local authority personnel, and on the basis of this determine an appropriate way to eliminate the payment of various allowances by UN implementing agencies (AF00/48/4/001).

Project selection criteria needs to be clarified

8. OIOS' audit of OIP/UNOHCI coordination and monitoring issues (Assignment No. AF00/48/1) found that UNOHCI had not established a planning and monitoring capacity as required under its mandate. As a result, it was not able to adequately coordinate project activities in Northern Iraq or ensure that projects being implemented by the UN agencies met the criteria established by the Security Council and the MOU with the Iraqi Government. The audit of Habitat indicated that a number of projects being considered for possible implementation in Phase VIII did not meet the criteria prescribed for the types of projects mandated under the SCR 986 programme. For example, these projects included construction equipment and machinery, upgrading of main highways in Northern Iraq (e.g. the Zakho-Duhok road), construction of grain silos and a sports stadium, and equipment and materials for roads and bridges. At this stage of the project screening process, OIOS

would have expected that unsuitable projects would have been deleted from the proposals.

9. While UNOHCI has taken steps to upgrade project coordination activities in Northern Iraq, it will take some time to finalize this process and to establish appropriate procedures. Under the proposed project selection modality being implemented by UNOHCI, the list of projects proposed by the LAs is initially reviewed by UNOHCI who then forwards it to the responsible UN implementing agencies. The objective is for UNOHCI to "filter" projects to ensure they meet the criteria under SCR 986. However, even when this modality has been fully implemented, it may not be feasible for UNOHCI to review each and every case. As a result of the Habitat audit, we are of the view that there is a need for OIP/UNOHCI to provide additional guidelines to Habitat and other UN implementing agencies in order to avoid repercussions for the Iraq Programme. In an OIP memorandum to the Humanitarian Coordinator, dated 8 February 1999, it was stated "There is an understandable tendency on the part of the local authorities wrongly to see the allocation as intended for infrastructure rehabilitation." The proposals submitted by the LAs for Phase VIII indicate that this remains a problem.

10. It is also our opinion that further coordination with the local authorities would be desirable in order to avoid unrealistic projects being proposed. In particular, there is a need for local authorities to develop a longer term perspective to the planning process and to present proposals for two to three years to UNOHCI instead of the current annual cycle. This would contribute to a more orderly planning process by allowing for the prioritising of projects and establishing a more sound planning criteria.

Recommendation 2

In order to ensure that projects meet the criteria under SCR 986, UNOHCI, in consultation with UN implementing agencies, should formulate written project selection guidelines and inform the local authorities of the selection criteria to help them improve their project submission requests (AF00/101/1/002).

Responsibility for post-implementation monitoring of projects needs to be clarified

11. During our audit of Habitat's operations in Northern Iraq, we reviewed the question of responsibility for monitoring the end use of completed projects. As with most project activities in Northern Iraq, a great deal of authority for all phases of projects have been delegated to the implementing UN agencies. However, from our discussions with Habitat it did not appear that sufficient attention had been paid to the post-implementation monitoring of the use of the facilities constructed by them. For example, during a discussion with members of the LAs and Habitat representatives regarding a recently completed housing project for internally displaced persons in Suleimaniyah, the LA representative indicated that close monitoring is done by them to ensure that appropriate use is being made of the housing. However, there did not seem to be an appropriate mechanism in place for either Habitat or UNOHCI to monitor the end use.

12. In order to ascertain the responsibilities of Habitat in this regards, we reviewed documentation, including the MOU with OIP and the agreement signed in May 1997 between Habitat and the former Department of Humanitarian Affairs. Neither agreement provides for Habitat to perform monitoring of the end use of projects implemented by it. Neither did Habitat's draft Project Planning Rationale provide for this function. It may also be inappropriate for Habitat to perform this function since it could conflict with their operational role.

13. OIOS is therefore of the opinion that further guidelines need to be established in this regard, and that UNOHCI, in consultation with the UN implementing agencies, needs to determine who should be responsible for this process. In our view, it would be appropriate that UNOHCI be primarily responsible to ensure that this is done, since in the final analysis, UNOHCI will be held accountable by the Iraqi Authorities should it be found that projects have been used for unintended purposes. In the case of Habitat, their current resources would appear to preclude them from fulfilling such a task successfully. While there are various viable alternatives to having this task performed, we are of the opinion that UNOHCI would be best placed to provide a balanced monitoring solution. The Geographical Observer Unit (GOU) has already performed observations of some sectors in Northern Iraq.

Recommendation 3

UNOHCI should re-examine the procedures established for conducting post-implementation reviews of the use of projects implemented in Northern Iraq, and establish a modality for conducting such reviews either by the GOU or a separate function in order to ensure that completed projects are being used for their intended purposes (AF00/48/4/003).

Need for an independent assessment of contracting capacity and construction material costs

14. The Habitat audit revealed a number of issues concerning the use of construction contractors and construction material management. These included:

- The assessment of contractors' capacity to implement projects, especially larger ones, in a timely and cost-effective manner;
- The ability of the contracting capacity in Northern Iraq to meet the demand of construction activity by Habitat and other agencies;
- The availability of specialized contractors to execute more complex construction projects;
- The overall assessment of contractors' performance by the UN implementing agencies;
- Sharing of contractor information amongst the UN implementing agencies including establishing a common roster of contractors and a common methodology for evaluating contractors' performance; and
- Opportunities to substitute locally acquired materials supplied by contractors for

imported materials which may, according to the experience of Habitat, increase the project implementation rate.

15. Habitat has recently hired a consultant who is expected to address several of the above issues. However, in our opinion there is a need to expand the study to include problems faced by other UN agencies in implementing construction projects. UNOHCI in its coordinating role would be in an ideal position to conduct such a study in cooperation with the other UN agencies. We believe the results would provide a sound basis for improving overall implementation of construction activities in Northern Iraq with the goal of increasing project implementation rates, which was observed to be a constraint for Habitat.

Recommendation 4 and 5

UNOHCI should facilitate coordination between the UN implementing agencies in order to: (i) establish a common vendor roster, and (ii) implement a common system to evaluate contractors' performance on construction projects thereby avoiding duplication of effort among the agencies and providing better information to assess contractors (AF00/48/4/004).

OIP/UNOHCI should, in coordination with the UN implementing agencies, undertake a study to: evaluate contractors' capacities to execute contracts; determine if alternative contracting sources are needed; and to assess the feasibility of procuring construction materials locally in order to increase the project implementation rate (AF00/48/4/005).

16. I take this opportunity to thank the management and staff of OIP and UNOHCI for the assistance and cooperation provided to the auditors in connection with this assignment.

Enclosure

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